

Paper balers and compactors generally qualify for the exemption when they are used to compact cardboard and other paper materials for wholesale or retail sale or lease. This type of use is considered to be manufacturing because the machinery is effecting a direct and immediate physical change upon the form of the paper by compacting it. See 86 Ill. Adm. Code 130.330(d)(3)(A). (This is a GIL.)

April 19, 2006

Dear Xxxxx:

This letter is in response to your letter dated December 8, 2005, in which you request information. We apologize for the delay in responding. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at [www.ILTAX.com](http://www.ILTAX.com) to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

We are reviewing sales tax procedures and would appreciate your assistance.

We are a large retailer who purchases industrial machines called either balers or compactors. We receive most of our shipments in cardboard boxes, thousands of them. We use the baler/compactor to compress, bale and band the used cardboard boxes for sale to a recycler. We would like confirmation that these balers/compactors would be tax exempt as a packaging machine, packaging a product for sale.

Thanks in advance for you prompt response in this matter.

## **DEPARTMENT'S RESPONSE**

Notwithstanding the fact that the sales may be at retail, the Retailers' Occupation Tax does not apply to sales of machinery and equipment used primarily in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease. The exemption applies whether the sale or lease is made directly by the manufacturer or some other person. In certain cases purchases

of machinery and equipment by a lessor will be exempt even though that lessor does not himself employ the machinery and equipment in an exempt manner. See 86 Ill. Adm. Code 130.330(a).

Section 130.330(b)(2) further provides that "[t]he manufacturing process is the production of any article of tangible personal property, whether such article is a finished product or an article for use in the process of manufacturing or assembling a different article of tangible personal property, by procedures commonly regarded as manufacturing, processing, fabricating or refining which changes some existing material or materials into a material with a different form, use or name."

Paper balers and compactors generally qualify for the exemption when they are used to compact cardboard and other paper materials. This type of use is considered to be manufacturing because the machinery is effecting a direct and immediate physical change upon the form of the paper by compacting it. See 86 Ill. Adm. Code 130.330(d)(3)(A).

I hope this information is helpful. If you require additional information, please visit our website at [www.ILTAX.com](http://www.ILTAX.com) or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Martha P. Mote  
Associate Counsel

MPM:msk